

Commerce and Housing Credit

Budget function 370 covers a wide array of programs designed to promote and regulate commerce within the United States and with other countries. Included in this function are programs that provide housing credit, loans to small businesses, deposit insurance for banks and credit unions, universal telecommunications services, and mortgage guarantees to home buyers. (Proceeds from spectrum auctions are recorded in budget function 950, undistributed offsetting receipts.) The agencies encompassed by this function are correspondingly diverse and include the Department of Commerce, Small Business Administration (SBA), Federal Housing Administration (FHA), Postal Service, Federal Deposit

Insurance Corporation, Federal Communications Commission (FCC), Securities and Exchange Commission, and Patent and Trademark Office. Spending for several of those agencies has historically been offset by collections of regulatory fees and other fees resulting from transactions with the private sector.

Fluctuations in annual outlays for function 370 usually stem from periodic adjustments in estimates of the cost of loan programs administered by the SBA, FHA, and FCC. The spike in discretionary spending in 2000 reflected funding for the decennial census that year. In 2005, outlays for this function are projected to total \$6.3 billion.

Federal Spending, Fiscal Years 2000 to 2005 (Billions of dollars)

	2000	2001	2002	2003	2004	Estimate 2005	Average Annual Rate of Growth (Percent)	
							2000-2004	2004-2005
Budget Authority (Discretionary)	5.1	1.4	0.6	-0.3	*	1.6	n.a.	n.a.
Outlays								
Discretionary	4.5	1.5	1.0	-0.6	0.1	1.2	n.a.	n.a.
Mandatory	-1.3	4.3	-1.4	1.3	5.1	5.1	n.a.	-1.7
Total	3.2	5.7	-0.4	0.7	5.3	6.3	n.a.	18.8

Note: * = between -\$50 million and zero; n.a. = not applicable (because some years have negative values).

370-01—Mandatory

Charge All Banks and Savings Associations a Premium for Deposit Insurance

(Millions of dollars)	2006	2007	2008	2009	2010	Total	
						2006-2010	2006-2015
Change in Receipts	+1,100	+1,200	+900	+600	+550	+4,350	+6,050

Most banks and savings associations in the United States offer federal deposit insurance, which covers depositors' accounts up to a limit of \$100,000. If a financial institution fails and cannot pay off all of its insured deposits, the Federal Deposit Insurance Corporation (FDIC) makes up the difference using money from the Bank Insurance Fund or the Savings Association Insurance Fund (depending on the type of institution involved). The FDIC finances those funds by charging banks and savings associations a premium—which, since 1991, has been based on their riskiness. That premium had ranged from 4 to 27 basis points (4 to 27 cents per \$100 of deposits), but the Deposit Insurance Funds Act of 1996 eliminated premiums for the least risky institutions as long as the accumulated reserves of their applicable deposit insurance fund exceed 1.25 percent of insured deposits. Consequently, about 90 percent of FDIC-insured institutions have not paid any deposit insurance premiums since 1997, even though those entities pose some risk of loss to the government.

This option would apply half of the minimum premium rate that was in effect before the Deposit Insurance Funds Act to all FDIC-insured institutions. As a result, the vast majority of institutions that now pay nothing for deposit insurance would pay a premium of 2 cents for each \$100 of deposits per year. That change would increase federal receipts by \$1.1 billion in 2006 and by more than \$4.3 billion over the 2006-2010 period.

Several rationales exist for charging all FDIC-insured institutions a premium for deposit insurance even when the insurance funds' reserves exceed 1.25 percent of insured deposits. First, that target level of reserves bears no relation to expected losses. In addition, it is below the average level of reserves maintained in the Bank Insurance Fund during its first 50 years (more than 1.4 percent of insured deposits between 1934 and 1983). Second, even institutions in the least risky category pose some risk of failure over time and thus should pay some premium. (Private

insurers, for example, charge premiums to even their best risks.) Recent experience indicates that some financial institutions fail abruptly because of risks that cannot easily be monitored, such as fraud or losses by rogue traders. If deposit insurance has some value, the correct premium is greater than zero. Third, this option would promote equitable treatment of all banks and savings associations. Since 1996, more than 1,000 institutions have entered the banking system and benefited from deposit insurance without ever paying premiums for it.

Another rationale for this option is that it would reduce the likelihood that premiums would have to be raised in bad economic times. When an insurance fund's reserves fall below 1.25 percent of insured deposits, the FDIC must raise premium rates sufficiently to bring that ratio back to 1.25 within a year. Charging all FDIC-insured institutions a small premium in good economic times would reduce the need to charge high premiums when the industry or the economy was weak. Moreover, to the extent that banks and savings associations absorb the cost of deposit insurance rather than passing it on to borrowers and depositors, paying higher premiums in bad times could lead those institutions to reduce their lending precisely at the point in the business cycle when policy-makers seek to expand credit.

The main arguments against this option are that the current level of reserves provides ample protection to taxpayers and that institutions in the best risk categories should not have to pay anything for deposit insurance as long as those reserves exceed the designated ratio of 1.25 percent. In that view, the benefits of not paying deposit insurance premiums in good economic times outweigh the drawbacks of having to pay high premiums in bad times. In addition, some observers argue that a strengthened regulatory regime and better risk-management practices make a repeat of the high number of failures of the 1980s unlikely.

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370-02—Discretionary

Require Government-Sponsored Enterprises to Register with the Securities and Exchange Commission

(Millions of dollars)	2006	2007	2008	2009	2010	Total	
						2006-2010	2006-2015
Change in Receipts	+490	+150	+170	+200	+240	+1,250	+2,710

Note: These registration fees would be offsetting collections rather than revenues and would be credited against discretionary spending.

Government-sponsored enterprises (GSEs)—private financial institutions chartered by the federal government—are intended to promote the flow of credit to targeted uses, primarily housing and agriculture. To do that, they raise funds in the capital markets on the strength of an implied federal guarantee, which reduces their borrowing costs and enables them to borrow much larger sums than would be available to other borrowers while holding less capital. The federal government also exempts GSEs from paying state and local income taxes. In addition, four GSEs—Fannie Mae, Freddie Mac, the Federal Home Loan Bank System, and the Farm Credit System—are exempt from provisions of the Securities Act of 1933, which requires publicly traded companies to register the securities they issue with the Securities and Exchange Commission (SEC).

This option would repeal those GSEs’ exemption from SEC rules, requiring them to pay registration fees and to disclose information about their securities. (A fifth GSE, Farmer Mac, is already subject to SEC requirements.) Such a change would increase federal receipts by about \$490 million in 2006 and more than \$1.2 billion over five years. Those estimates assume that the GSEs would pay the same registration fee as other firms: about 1.8 basis points (0.018 percent of the securities’ value) in 2006, the Congressional Budget Office projects. The estimates also assume that the statutory basis of SEC fees would be changed. Under current law, the SEC sets rates for registration fees in order to collect target amounts spelled out in law (\$689 million in 2006, for example). Under this option, the SEC would be authorized to col-

lect the target amount plus additional amounts from registering GSE securities.

Supporters of this option argue that it would help level the playing field between the GSEs and other firms that issue securities, including issuers of mortgage-backed securities (MBSs). In addition, the disclosures required by the SEC might provide additional information that could help investors predict more accurately the speed with which mortgages will be paid off—a key uncertainty affecting the value of individual MBS issues. (Alternative proposals that have been introduced in the Congress would require the GSEs to make those disclosures but not pay the full SEC registration fees. Another possibility would be to require the disclosures without imposing any fees.) Supporters also maintain that electronic registration would pose little administrative burden on the GSEs and that, contrary to some claims, registration requirements would not affect borrowers’ ability to lock in mortgage rates before closing.

Opponents of this option argue that registration is unnecessary. In accord with recommendations made by a multiagency task force in January 2003, the GSEs have already agreed to disclose additional information about their MBS pools. (Similarly, Fannie Mae voluntarily registered its common stock in March 2003 under the Securities Exchange Act of 1934, and Freddie Mac and the 12 Federal Home Loan Banks plan to do so as well. Registrants under that law pay no fees to the SEC.) Opponents also argue that registration fees would impose costs on home buyers nationwide. If the fees were fully passed on to borrowers, the closing costs on a \$300,000 mortgage in 2006 would increase by about \$55.

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RELATED OPTION: 920-02

RELATED CBO PUBLICATIONS: *Letter to the Honorable Richard C. Shelby regarding updated estimates of the subsidies to the housing GSEs*, April 8, 2004; *Testimony on Regulation of the Housing Government-Sponsored Enterprises*, October 23, 2003; *Effects of Repealing Fannie Mae’s and Freddie Mac’s SEC Exemptions*, May 2003; and *Federal Subsidies and the Housing GSEs*, May 2001

370-03—Discretionary

Eliminate the International Trade Administration’s Trade Promotion Activities or Charge the Beneficiaries

(Millions of dollars)	2006	2007	2008	2009	2010	Total	
						2006-2010	2006-2015
Change in Spending							
Budget authority	-401	-413	-425	-437	-449	-2,125	-4,579
Outlays	-299	-373	-417	-429	-441	-1,959	-4,366

The International Trade Administration (ITA) of the Department of Commerce runs a trade development program that assesses the competitiveness of U.S. industries and promotes exports. The ITA also operates the U.S. and foreign commercial services, which counsel U.S. businesses on exporting. The agency charges some fees for its services, but those fees do not cover the cost of all such activities.

This option would either eliminate the ITA’s trade promotion activities or charge the beneficiaries for them. Either change would save \$299 million in outlays in 2006 and a total of about \$2 billion through 2010.

The principal rationale for this option is that business activities, such as trade promotion, are usually better left to the firms and industries that stand to benefit from them than to a government agency. When beneficiaries do not pay the full costs of services, the ITA’s activities effectively subsidize the industries involved. Those implicit subsidies are an inefficient means of helping the industries because they are partially passed on to foreigners in the form of lower prices for U.S. exports. Moreover, they tend to cause the industries’ products to be sold abroad for less than the cost of production and sales, and thus they lower U.S. economic well-being. Further, in the Program Assessment Rating Tool evaluation included in the President’s 2005 budget, the Office of Management and Bud-

get concluded that businesses can obtain services similar to those of ITA’s foreign commercial services from state, local, and private-sector entities.

An argument against eliminating the ITA’s trade promotion activities is that such activities are subject to some economies of scale, so having one entity (the federal government) counsel exporters about foreign legal and other requirements, disseminate knowledge of foreign markets, and promote U.S. products abroad might make sense. In that case, net federal spending could be reduced by charging the beneficiaries of those programs their full costs. However, fully funding the ITA’s trade promotion activities through voluntary charges could prove difficult or impossible. For example, in many cases, promoting the products of selected firms that were willing to pay for such promotion would be impossible without also encouraging demand for the products of other firms in the same industry. In those circumstances, firms would have an incentive not to purchase the services because they would be likely to receive the benefits regardless of whether they paid for them. Consequently, if the federal government wanted to charge beneficiaries for the ITA’s services, it might have to require that all firms in an industry (or the industry’s national trade group) decide together whether to buy the services. If the firms opted to purchase them, all firms in the industry would be required to pay according to some equitable formula.

RELATED OPTIONS: 150-01, 350-04, 350-05, and 350-06

RELATED CBO PUBLICATIONS: *The Decline in the U.S. Current-Account Balance Since 1991*, August 2004; and *Causes and Consequences of the Trade Deficit: An Overview*, March 2000

370-04—Discretionary

Eliminate the Advanced Technology Program

(Millions of dollars)	2006	2007	2008	2009	2010	Total	
						2006-2010	2006-2015
Change in Spending							
Budget authority	-139	-141	-144	-147	-150	-721	-1,523
Outlays	-22	-71	-121	-138	-146	-498	-1,275

The Commerce Department’s Advanced Technology Program (ATP), part of the National Institute of Standards and Technology, is intended to increase the competitiveness of U.S. industry by helping discoveries in basic research be converted more quickly into technological advances with commercial potential. The program awards research and development (R&D) grants to companies, independent research institutes, and joint ventures. The grants, which are limited to \$2 million over a three-year period when awarded to a single firm, typically require a matching commitment from private sources. They support research in generic technologies that have applications for a broad range of products as well as research that precedes product development.

This option would end the Advanced Technology Program (as the Administration proposes in its 2006 budget). Eliminating funding for the ATP would save \$22 million in outlays in 2006 and \$498 million over the 2006-2010 period.

The Administration argues that private investors are better able than the federal government to decide which research efforts should be funded. Furthermore, government financing of R&D may be displacing private capital. U.S. venture capital markets focus on many of the same research areas as the Advanced Technology Program. Since the ATP was conceived, annual venture capital investment in the United States has increased fourfold, to \$10.6 billion. In addition, according to industry sources, venture capital firms have several times that amount in reserves committed to them but not yet invested. The fact that the available pool of venture capital is many times the size of the ATP suggests that the pro-

gram is funding work that could be financed by venture capital firms.

Surveys of companies that participate in the Advanced Technology Program appear to counter those arguments, however. A 2001 survey found that 63 percent of the companies that applied for an ATP grant but did not receive one did not proceed with their research. Another 17 percent continued with their research but on a much smaller scale. Only 5 percent of the firms that did not secure ATP funding went ahead with their R&D programs as originally designed. Furthermore, the survey indicated that the ATP has refined its selection process to reduce the overlap between its projects and those likely to be financed by private sources, even if the general research areas are similar. That result is a change from earlier practices, according to a survey by the Government Accountability Office, which found that fully half of nonwinners were able to find private sources of funding.

In addition, surveys of companies that did receive ATP grants indicate that the awards accelerated the development and commercialization of advanced technology by two years or more for the majority of planned commercial applications. They also show that recipients were more willing to tackle high-risk technology development projects as a result of the grants, presumably increasing both the amount and the breadth of the R&D funded.

Other arguments against eliminating the ATP are that venture capital firms spend only a small fraction of their funds on the very early stages of technology development—the area on which the ATP focuses—and that the Office of Management and Budget’s assessments of federal programs for the President’s 2004 budget concluded that the ATP was well managed.

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370-05—Discretionary

Eliminate the Hollings Manufacturing Extension Partnership and the Baldrige National Quality Program

(Millions of dollars)	2006	2007	2008	2009	2010	Total	
						2006-2010	2006-2015
Change in Spending							
Budget authority	-110	-112	-115	-117	-119	-573	-1,210
Outlays	-18	-73	-98	-112	-116	-417	-1,036

In addition to its various research and development activities, the National Institute of Standards and Technology runs two programs designed to improve the performance of U.S. businesses: the Hollings Manufacturing Extension Partnership (HMEP) program and the Baldrige National Quality Program. The HMEP program consists primarily of a network of manufacturing extension centers that help small and midsize firms by providing expertise in the latest management practices and manufacturing techniques as well as other knowledge. The nonprofit centers are not owned by the federal government but are partly funded by it. The National Quality Program consists mainly of the Malcolm Baldrige National Quality Award, which is given to companies (and, in recent years, to education and health care institutions) for achievements in quality and performance.

This option would eliminate the Hollings Manufacturing Extension Partnership and Baldrige National Quality Programs, reducing discretionary outlays by \$18 million in 2006 and \$417 million through 2010.

The need for the government to provide the technical assistance given by the HMEP program is questionable. Many professors of business, science, and engineering are also consultants to private industry, and other ties between universities and private firms facilitate the transfer of knowledge. For example, some of the centers that HMEP subsidizes predate the program. In the Program Assessment Rating Tool evaluation included in the President's 2005 budget, the Office of Management and Budget (OMB) noted that, according to a recent survey by the Modernization Forum, half of HMEP clients said

that the services they obtained from the program were available from alternative sources, although at higher cost.

HMEP's positive effect on productivity is also questionable. Federal spending for HMEP represents a subsidy for the firms that the program helps. In most cases, subsidies allow inefficient companies to remain in business, tying up capital, labor, and other resources that would otherwise be used more productively elsewhere. According to OMB's evaluation, manufacturing extension centers were originally intended to become self-sufficient, supported entirely by fees and perhaps state contributions. However, the federal government still covers one-third of the centers' costs, with state governments and user fees each covering another third. To promote self-sufficiency, the President's budgetary requests in recent years have recommended funding individual centers for no longer than six years. (The President's 2006 budget proposes a 50 percent reduction from the 2005 grant level.)

Opponents of eliminating the HMEP program point to the economic importance of small and midsize companies, which they say produce more than half of U.S. output and employ two-thirds of U.S. manufacturing workers. They argue that small firms often face limited budgets, lack of expertise, and other barriers to obtaining the sort of information that HMEP provides. Moreover, larger firms rely heavily on small and midsize companies for supplies and intermediate goods. For those reasons, opponents of this option argue that the HMEP program promotes U.S. productivity and international competitiveness.

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In regard to the Baldrige National Quality Program, one argument for eliminating it is that businesses need no government incentives to maintain quality—the threat of lost sales is sufficient. Furthermore, winners of the Baldrige Award often mention it in their advertising, which

means they value the award. If so, they should be willing to pay contest entry fees large enough to eliminate the need for federal funding. The primary argument for retaining the Baldrige National Quality Program is that it promotes U.S. competitiveness.

RELATED OPTION: 370-04

370-06—Mandatory

Repeal the Continued Dumping and Subsidy Offset Act of 2000

(Millions of dollars)	2006	2007	2008	2009	2010	Total	
						2006-2010	2006-2015
Change in Spending							
Budget authority	-1,300	-800	-300	-300	-300	-3,000	-4,500
Outlays	0	-1,300	-800	-300	-300	-2,700	-4,200

U.S. antidumping (AD) law deals with imports that are priced below their cost of production or below their price in the producer’s home market. Countervailing-duty (CVD) law addresses imports that have been subsidized by the producer’s government. Those laws provide for the imposition of duties on imports when the Department of Commerce determines that the imports have been subsidized or dumped in the U.S. market and the International Trade Commission determines that those practices are threatening or causing material injury to competing U.S. industry. Under the Continued Dumping and Subsidy Offset Act of 2000 (CDSOA), the revenues from such duties on any given import are distributed on an annual basis to the domestic producers that were petitioners, or interested parties supporting the petition, in the case that resulted in the duties being levied on that import.

This option would repeal CDSOA, as proposed in the President’s 2006 budget, and return to the previous practice, in which revenues from AD/CVD duties were retained by the federal government. That change would reduce outlays by a total of \$2.7 billion through 2010.

Several arguments can be made in favor of this option. First, the World Trade Organization Appellate Body has ruled that CDSOA violates the World Trade Organization agreement, and it has authorized the European Union and a number of countries to retaliate against U.S.

exports. Second, the duties imposed under AD/CVD laws are intended to offset the effects of any continued dumping or subsidy. Distributing revenues from those duties to U.S. producers provides a duplicate remedy. Third, those distributions subsidize the output of some firms at the expense of others, both within and among industries, causing inefficiency in the economy. Finally, CDSOA increases the incentive for U.S. industries to pursue AD/CVD complaints. To the extent that the result is more duties being imposed, research suggests that the cost to purchasers of the products in question exceeds the benefit to competing domestic producers of the products.

Proponents of CDSOA have argued that AD/CVD laws are intended to restore conditions of fair trade so that jobs and investment that should be in the United States are not lost through false market signals, and the continued dumping or subsidization of imported products after AD or CVD orders have been issued can frustrate the remedial purpose of the laws by preventing market prices from returning to fair levels. When dumping or subsidization continues, domestic producers may be reluctant to invest or hire and may be unable to maintain pension and health care benefits that conditions of fair trade would permit. Similarly, small businesses and farmers may be unable to pay down accumulated debt, obtain working capital, or otherwise remain viable.

RELATED OPTION: 370-03

RELATED CBO PUBLICATIONS: *Antidumping Action in the United States and Around the World: An Update*, June 2001; *Antidumping Action in the United States and Around the World: An Analysis of International Data*, June 1998; and *How the GATT Affects U.S. Antidumping and Countervailing-Duty Policy*, September 1994

370-07—Mandatory

Permanently Extend the FCC’s Authority to Auction Licenses to Use the Radio Spectrum

(Millions of dollars)	2006	2007	2008	2009	2010	Total	
						2006-2010	2006-2015
Change in Receipts	0	0	-300	+1,000	+1,000	+1,700	+6,950

Note: Proceeds from spectrum auctions are recorded in budget function 950 (undistributed offsetting receipts).

In 1993, the Federal Communications Commission (FCC) was first granted limited authority to use competitive bidding to assign licenses for use of the radio spectrum. The Balanced Budget Act of 1997 went further—not just permitting but requiring the FCC to auction licenses in all circumstances in which more than one private applicant seeks a license. From 1994 through 2003, those auctions generated a total of \$20 billion in federal receipts.

The FCC’s authority to auction spectrum licenses is set to expire at the end of fiscal year 2007. This option would permanently extend that authority, producing \$7 billion in additional federal receipts over the next 10 years. (The President’s budget for 2006 includes a similar proposal.)

One rationale for extending the FCC’s authority is that the receipts raised by auctioning licenses compensate the public for private use of the radio spectrum. Moreover, competitive bidding directly places licenses in the hands of the parties that value them most—a more efficient outcome than the one produced by lotteries or comparative hearings, the methods previously used to assign licenses. (In a comparative hearing, entities that wished to be granted a license made their case to the FCC in terms of the public-interest standard, an imprecise criterion under

which authority to use the spectrum was supposed to go to the parties that would make the best use of it from society’s point of view.)

Opponents of extending the FCC’s authority maintain that the auctions held since 1994 have harmed both the telecommunications industry and the public interest. They argue that auction winners pay such high prices for the right to use the radio spectrum that the winners are unable to make the capital investments necessary to deliver telecommunications services. Nevertheless, the investments that have been made since 1994 have been sufficient to greatly expand the depth and breadth of services offered to consumers.

Opponents of continuing to auction licenses also argue that the lure of auction receipts has caused the FCC to allocate too little of the radio spectrum for unlicensed uses, such as wireless access to the Internet. However, the agency has allocated additional spectrum for unlicensed uses several times since 1993 and is currently considering other allocations for such uses. The FCC is also looking at allowing more use of unlicensed low-power devices that can share parts of the spectrum primarily allocated for licensed uses without causing significant interference.

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RELATED OPTION: 370-08
RELATED CBO PUBLICATION: *Where Do We Go from Here? The FCC Auctions and the Future of Radio Spectrum Management*, April 1997

370-08—Mandatory

Restrict the FCC’s Use of Auction Receipts to Cover Its Operating Costs

(Millions of dollars)	2006	2007	2008	2009	2010	Total	
						2006-2010	2006-2015
Change in Receipts	+32	+33	+10	0	0	+75	+75

Note: Proceeds from spectrum auctions are recorded in budget function 950 (undistributed offsetting receipts).

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Under current law, the Federal Communications Commission (FCC) is required to award certain licenses to use the radio spectrum through competitive bidding. The agency is allowed to directly spend the proceeds from auctioning those licenses to cover costs related to implementing and operating the auction system. That authority, which will expire at the end of fiscal year 2007, gives the FCC wide latitude in deciding how much of its budget will be funded from auction proceeds. (The rest of the agency’s budget is funded through annual appropriations, which are largely offset by income from fees that the FCC charges to regulated industries.)

In the past four years, the FCC spent an average of \$85 million per year from auction proceeds. That spending covered about 24 percent of the agency’s total budget—up from 9 percent in 1996, the first year in which the FCC was authorized to spend auction receipts. A 2003 report by the FCC’s Office of the Inspector General (OIG) suggested that the agency was overly reliant on auction proceeds to cover its general expenses. For example, those proceeds were used to fund 90 percent of the costs of developing and operating the Universal License System—which individually tracks all of the licenses that the FCC issues to nonfederal users of the radio spectrum—even though only about 5 percent of licensing transactions (new applications, renewals, and so forth) involve licenses that are subject to auction.

This option would limit the type and amount of expenses that the FCC could recover from auction proceeds in 2006 and 2007 and require the agency to make up any difference by reducing operating costs or increasing regulatory fees. The OIG report observed that the FCC did not have a consistent accounting method for attributing

costs to auctions, but it implied that such an analysis would probably lead to a smaller share of agency costs being defined as auction-related. This option assumes that legislation would be enacted to outline criteria for such allocations and to cap the portion of costs allocated to auctions at 15 percent. That percentage is roughly equal to the auction overhead rate (defined as the fraction of full-time-equivalent employees involved in auctions) that the FCC uses to allocate the cost of some centralized services to the auction program. Such a cap would increase the amount of auction receipts deposited in the Treasury by \$32 million in 2006 and \$33 million in 2007. (If the FCC’s auction authority was extended after 2007, as discussed in option 370-07, and such a cap was included, net proceeds would be higher than those shown here or for that option.)

One rationale for limiting the FCC’s cost recovery from auction proceeds involves the cost-effectiveness of the current practice. The FCC undoubtedly incurred costs in moving to a competitive-bidding system for assigning licenses, but the rapid increase in those costs—to almost one-quarter of the agency’s total outlays—raises questions. It may be that spending decisions that can conceivably be supported by auction revenues receive less careful consideration than decisions that bear the scrutiny of appropriators or of companies paying regulatory fees. Another rationale for this option is that paying for FCC activities by charging fees (whether those fees ultimately fall on businesses that hold spectrum licenses or on their customers) would be more equitable than the current situation because the direct recipients of the agency’s regulatory services would bear a larger share of the costs of those services.

An argument against limiting the percentage of the FCC's annual costs that can be underwritten by auction revenues is that auction activities have been costly. Another rationale is that current fees are not well aligned with users' demands on the agency and thus are not equi-

table. Moreover, the choice between funding telecommunications regulation through user fees or through general tax dollars may be a distinction without much difference because telecommunications providers and consumers make up a significant share of taxpayers.

RELATED OPTION: 370-07

RELATED CBO PUBLICATION: *Where Do We Go from Here? The FCC Auctions and the Future of Radio Spectrum Management*, April 1997

